Supreme Court, U.S.
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No._____

IN THE

SUPREME COURT OF THE UNITED STATES

October Term, 1997

TEXTILE PRODUCTIONS, INC.,
Petitioner,

v.

THE MEAD CORPORATATION
and FIBER TRIM SEWING COMPANY
Respondents.

PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

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54 pp

Questions Presented

I.

Does a patent licensee that has been granted the exclusive right to manufacture the patented invention in the United States for resale by the patentee to its customers have standing to bring a patent infringement action in Federal District Court as an exclusive licensee, where the patentee has breached the license agreement by purchasing the invention from a third party for resale to the patentee's sole customer for the invention?

II.

Where a patent license agreement provides that the licensee shall have the exclusive right to manufacture the patented invention for resale by the patentee to its customers and provides that the licensee shall not sell the invention to anyone but the patentee so that the agreement is an "exclusive dealing agreement" pursuant to §2-306(b) of the Uniform Commercial Code, does the implied duty placed upon the patentee by the Code to use its best efforts to promote and resell the product of the licensee preclude the patentee from granting further licenses for the manufacture of the invention so as to make the licensee an exclusive licensee with standing to bring a patent infringement action in Federal Court?

III.

Where a co-patentee conveys its title to a patent to the other co-patentee in exchange for the exclusive right to manufacture the invention and where such right is strictly limited to supplying only the now sole patentee, is there a forbidden lack of mutual obligation between the parties if the patentee is deemed free to license third parties to manufacture the invention to the detriment of the former co-patentee?

List of Parties

Textile Productions, Inc. , Petitioner.*

The Mead Corporation and Fiber Trim Sewing Company,
Respondents.

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PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

The petitioner, Textile Productions, Inc. respectfully prays that a writ of certiorari issue to review the judgment and opinion of the United States Court of Appeals for the Federal Circuit entered in the above-entitled proceeding on March 31, 1998 and January 28, 1998 respectively.

Opinions and Orders Below

The Order of Dismissal from the District Court entered December 30, 1996 appears at page 1 of the Appendix. The District Court's Order Denying Plaintiff's Motion for Reconsideration entered January 15, 1997 appears at page 3 of the Appendix. The Federal Circuit's Opinion was released for publication on January 28, 1998 and is reported at 134 F.3d 1481 (Fed Cir 1998). The opinion is reproduced in full at page 4 of the appendix. The Federal Circuit's Order Denying Motion for Rehearing and En Banc Suggestion entered March 24, 1998 appears at page 12 of the appendix. The Judgment of the Federal Circuit entered March 31, 1998 appears at page 13 of the appendix. The District Court's Amended Order of Dismissal entered April 9, 1998 appears at page 14 of the appendix.

Jurisdictional Statement

35 U.S.C. § 281 provides the remedy for infringement of a patent:

> A patentee shall have remedy by civil action for infringement of his patent.

Pursuant to Waterman v McKenzie, 138 US 252, 11 S.Ct. 334, 335 34 L.Ed. 923 (1891) Petitioner Textile Productions, Inc., as exclusive patent licensee had standing to bring this patent infringement action in Federal District Court against Respondents The Mead Corporation

("Mead"), the title holder of the patent, and Fiber Trim Sewing Company ("Fiber Trim"). Pursuant to *Minco, Inc., v. Combustion Engineering, Inc.*, 95 F 3d 1109, 1116-1117 (Fed.Cir. 1996):

> Under the Patent Act, only patentees may bring an action for infringement. *See* 35 U.S.C. § 281 (1994). Patentees include not only the one to whom the patent issued but also any successors in title. 35 U.S.C. § 100(d) (1994). Parties may transfer patent rights by a legal agreement. *CMS Indus., Inc. v. L.P.S. Int'l, Ltd.*, 643 F.2d 289, 294, 217 USPQ 20, 23 (5th Cir. 1981). A conveyance of interests in a patent typically constitutes either an assignment or a mere license. An assignment of patent rights operates to transfer title to the patent, while a license leaves title in the patent owner. *Waterman v. Mackenzie*, 138 U.S. 252, 255 (1891). Thus, an assignee holds title to a patent and may sue for infringement without further permission or clearance. A licensee, however, cannot sue without joinder of the patent owner. Id.

Pursuant to 28 U.S.C. § 1338(a), "The district courts have original jurisdiction of any civil action arising under any Act of Congress relating to patents...Such jurisdiction shall be exclusive of the courts of the states in patent...cases."

Petitioner Textile appealed the final order of dismissal that disposed of all claims with respect to all parties entered December 30, 1996 by the United States District Court for the Eastern District of Michigan, the Honorable John Corbett O'Meara to the United States Court of Appeals for the Federal Circuit. Pursuant to 28 U.S.C. § 1295(a)(1), The United States Court of Appeals for the Federal Circuit has exclusive jurisdiction of an appeal from a final decision of District Court if jurisdiction of that court was based upon 28 U.S.C. § 1338(a). Petitioner/Appellant Textile filed a timely motion for reconsideration with the District Court on January 9, 1997. The District Court denied the motion for reconsideration by order dated January 15, 1997. Appellant filed its Notice of Appeal with the United States District Court on February 11, 1997.

The United States District Court for the Federal Circuit issued its published opinion finding that Petitioner Textile lacked subject matter

jurisdiction on January 28, 1998, and the Court denied Petitioner's timely filed Motion for Rehearing and Suggestion for Hearing En Banc by Order dated March 24, 1998.

Petitioner timely filed this Petition for Writ of Certiorari in accordance with Rule 13 of the Rules of this Court. This Court's jurisdiction is invoked pursuant to 28 U.S.C. §1254(1).

Statutes
(See page 15 of appendix for full text of statutes)

Uniform Commercial Code §2-306; MCLA §440.206

Drafter's comment to UCC §2-306(2)

28 U.S.C. §1338(a)

28 U.S.C. §1254(1)

28 U.S.C. §1295(a)(1)

35 U.S.C. §100(d)

35 U.S.C. §154(a)(1)

35 U.S.C. §261

35 U.S.C. §271(a) and (b)

35 U.S.C. §281

Statement of the Case

The published Court of Appeals Opinion (see Appendix pages 4-11) substantially states the relevant facts of this case[1]. Petitioner Textile and Respondent Mead jointly developed an invention, the wire harness sock and Textile filed a patent application on behalf of the inventors. In February 1990, while patent application was still pending, Textile and Mead executed a General Agreement and a Purchase Agreement. Under the General Agreement, the parties agreed to split the costs of prosecuting the application and to concurrently execute the Purchase Agreement. The General Agreement also contained four other relevant provisions:

> 3. [Mead] and TEXTILE **have an established business** and market for the PRODUCT by which TEXTILE is able to supply to [Mead] all its requirements for the PRODUCT which [Mead] in turn, **is able to provide to all markets**.
>
> 4. The parties **desire to continue their present cooperative business** and establish their respective rights to or resulting from the contingency of obtaining patent protection covering the PRODUCT [emphasis added]. Thus, the parties agree as follows:
>
> ***
>
> 5. Upon conclusion of the examination of the PATENT APPLICATION, [Textile] shall assign its entire interest in and to any and all patents derived therefrom to [Mead].
>
> 6. Should any aforesaid assigned patent be proposed by [Mead] for reissue or reexamination, or become the subject of litigation, [Mead] shall give reasonable notice to [Textile] and shall allow [Textile] to participate, through its . . . counsel, in any such proceeding on any reasonable basis directed to protecting

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[1] Petitioner disputes the factual finding by the Court of Appeals that in response to Respondent Mead's alleged claims of defects that Textile responded by claiming it was "doing the best that it could" (see page 6 of Appendix). At the time Mead breached the agreement, a mere 253 of the last 206,000 units of the invention made by Textile had been defective, and thus, there were no claims of defects.

> [Textile's] interests therein and in this Agreement. All legal expenses incurred by either party relating to this paragraph shall be shared on an equal basis by both [Textile] and [Mead].

The Purchase Agreement provided that Mead would "purchase" and Textile would "manufacture and supply" 100% of Mead's "requirements" for the wire harness sock product. Textile was to be Mead's "exclusive source" and Mead was to be Textile's "sole customer" for the "PRODUCT", the invention itself. The only customer Mead has ever had for the invention is Ford Motor Company.

In 1995, Mead breached the Purchase Agreement by secretly purchasing the invention from Respondent Fiber Trim for resale to Ford. On March 26, 1996, Textile filed the instant action against Mead and Fiber Trim, alleging that Textile was an exclusive licensee of the patent with an exclusive nationwide license to make the invention and that Mead and Fiber Trim had infringed this right. Textile filed a motion for partial summary judgment of liability for breach of contract against Mead and for patent infringement against both Mead and Fiber Trim. Mead and Fiber Trim filed a motion for summary judgment challenging Textile's standing to assert patent infringement. The district court found that Textile did not have standing to sue for patent infringement as an exclusive licensee, denied all other motions as moot, and dismissed the complaint with prejudice. Textile appealed to the United States Court of Appeals for the Federal Circuit which defined the central issue of the case thusly:

> The task before this court, therefore, is to determine whether Textile is actually an exclusive licensee or is simply a bare licensee (Appendix, page 8).

The Court of Appeals found that Textile was a mere bare licensee without standing to bring a patent infringement action holding:

> Mead did not promise that all others (beyond Textile) "shall be excluded from [making the invention]." *Western Elec.*, 42 F.2d at 118. Mead retained the right to license third parties to manufacture the harness for their own use or for sale to others. In sum, Mead did not grant Textile the rights of an exclusive

licensee, but retained for itself important rights to license the invention to others (Appendix at page 8).[2]

The Court of Appeals and Mead completely ignored Textile's argument that Mead is precluded from granting further licenses to manufacture the invention because the Purchase Agreement is an "exclusive dealing agreement" governed by §2-306(2) of the Uniform Commercial Code; Michigan Compiled Laws Annotated §440.2306(2)[3]. Because Textile could only sell the invention to Mead and Mead could only purchase it from Textile, Textile argued that MCLA §440.2306 imposed an implied duty upon Mead to employ its best efforts to exclusively promote and sell Textile's product, a duty consistent with recital in the General Agreement that Mead is able to supply "all markets". Further, the UCC drafter's comment to §2-306(2); MCLA 440.2306(2) explicitly states that the exclusive dealing agreement reseller [Mead] is the exclusive sales agent of its principal, Textile. Michigan case law precludes the exclusive sales agent, a fiduciary of its principal, from dealing in the same product of the agency for his own benefit. These implied duties effectively preclude Mead from granting any further licenses for the manufacture of the invention because if it were to grant such licenses, it would be breaching the agreement by destroying the market for Textile's product. This is all that Textile must show to have standing to bring a patent infringement action.

Textile also argued that it was irrelevant whether Mead could grant further licenses to third parties for their own use or for sale to others. However, both the Court of Appeals and Mead concede that Mead is precluded from granting the instant license to Fiber Trim or to anyone else to manufacture the invention for resale to Ford, the only customer ever for the invention. Textile argued that it was the exclusive licensee, at least regarding the manufacture of the invention for resale to Ford, the sole issue in this action.

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[2] The Court of Appeals also remanded the case to the District Court to determine if Textile's contract claims should have been dismissed without prejudice. On April 9, 1998, the District Court entered its Amended Order of Dismissal dismissing Textile's breach of contract claims without prejudice.

[3] In its brief to the Court of Appeals, Mead itself had argued that the terms of the Purchase Agreement were governed by MCLA §440.2306.

In response to Textile's argument that UCC §2-306(2) precluded Mead from issuing further licensees, Mead argued: a) Textile had allegedly confused the grant of private rights to fabricate the invention with the transfer of the patent right to exclude others from making the invention; b) Textile's argument is allegedly contrary to the ruling in *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1551, 35 USPQ2d 1065, 1074 (Fed. Cir. 1995) (in banc); c) Textile's argument is shallow because it allegedly finds its "patent rights" not in the parties' agreements, but in implied duties from the Uniform Commercial Code; and d) the parties' agreements do not prohibit Mead from licensing third parties to manufacture the invention for "non-Mead" customers.

In response to Textile's argument that its exclusive license to manufacture the invention for Ford is sufficient to confer standing, Mead responded that one must have received a transfer of one of the complete proprietary rights under a patent, that is, one must have received the right to exclude **all** others from making, using or selling the invention within the United States or a designated geographic territory thereof, and not merely a right to exclude a limited category of potential users.

Textile has timely filed this petition seeking review of the opinion of the Court of Appeals. A lower court finding regarding subject matter jurisdiction is reviewed *de novo*. *Mars, Inc. v. Kabushiki-Kaisha Nippon Conlux*, 24 F.3d 1368, 1371, 30 USPQ2d 1621, 1622 (Fed. Cir. 1994).

REASONS FOR GRANTING THE WRIT

I. The ruling of the Federal Circuit, binding upon all other circuits and lower courts, that a grant of the exclusive right to manufacture a patented invention within a particular sphere or field is a mere bare license, when coupled with an implied promise by the patentee not to grant additional licenses within that sphere, is contrary to 148 years of Supreme Court precedent and seriously undermines the concept of granting standing for exclusive licensees of particular fields of use.

Summary of Argument

The instant published opinion misapprehended the nature of a bare patent license and an exclusive license for a field of use by finding that Petitioner Textile Productions, Inc. ("Textile") had been promised the exclusive right to manufacture the patented invention for Mead's customers (when this action only concerns Mead's breach of that promise of exclusivity in that field) while simultaneously finding that such a license is a mere bare license and denying standing to Textile. This allegedly bare license that is also an exclusive manufacturing right is logically impossible and contrary to Supreme Court precedent. However, because the ruling is contained in a published opinion of the Federal Circuit and is binding upon all Federal Courts except the Supreme Court, this opinion is certain to have a pernicious effect of undermining Congress' stated goals of uniformity and consistency in the field of patent law when it established the Federal Circuit.

Significantly, the opinion seriously undermines the concept of standing for an exclusive field of use patent license. The opinion suggests that although a license may prohibit the granting of additional licenses within the sphere of exclusivity, the possibility of the issuance of additional licenses outside that sphere will destroy the standing of the exclusive licensee to enforce his exclusive rights in a Federal patent action, a position that is without prior authority and is contrary to Supreme Court precedent.[4]

¶18 of parties' instant Purchase Agreement provides that it shall be interpreted pursuant to the laws of Michigan. Michigan law, specifically MCLA 440.2306(2); UCC §2.306(2), clearly provides that the instant agreement is an **exclusive dealing agreement** (not a mere requirements contract as found by the Court of Appeals). Respondent Mead is thus subject to an implied, but iron clad, duty to employ its best efforts to promote and sell only units of the invention made by Textile. It is clear that the best efforts duty prohibits the further licensing of third parties by Mead to manufacture the invention and that Michigan law imposes upon Mead a

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[4] Note, however, that the parties' instant agreements do not merely provide Textile with manufacturing exclusivity for the invention when resold by Mead to its existing customers. Textile has been granted manufacturing exclusivity for resale by Mead to all markets and Mead is prohibited by the agreements from licensing any other party to manufacture the invention.

fiduciary duty to Textile as its exclusive sales agent which prohibits any further licensing because Mead may not permit a competing market to challenge Textile's market. The Court of Appeals had no authority to abrogate this most essential implied term of the parties' agreement and, in essence, abrogate the clear and unchallenged statutory and case law of the State of Michigan.

Finally, Mead now suggests that the opinion implies that the agreement imposes no duties upon Mead except those based purely upon Mead's whim of the moment. This suggests the absurd result that the agreements are without mutuality of obligation, a result forbidden by the case of *Wood v. Lucy, Lady-Duff Gordon*, 222 N.Y. 88, 118 N.E. 214 (1917).

I. Petitioner Textile submits that it has been granted the exclusive right to manufacture the patented invention for resale by Mead to all markets and that Mead is prohibited from issuing any additional licenses to manufacture the invention. Nevertheless, both the Court of Appeals and Respondents concede that Textile has been granted the exclusive right to manufacture the patented invention for resale to Ford Motor Company. Petitioner is thus an exclusive patent licensee with standing to bring a Federal patent action.

a. The Supreme Court in the case of *Waterman v McKenzie*, 138 US 252 , 11 S.Ct. 334, 34 L.Ed. 923 (1891) held that an exclusive right to manufacture the invention in a specific sphere may be granted where the patentee reserves the right to manufacture the invention in a different sphere without such licensee losing standing as an exclusive licensee.

In the seminal case of *Waterman v McKenzie*, 138 US 252 at 255, 11 S.Ct. 334 at 335, 34 L.Ed. 923 (1891), the Supreme Court clearly stated that where the patentee has granted the exclusive right to manufacture the invention for sale within only a specific, limited sphere while retaining the right to manufacture the invention for sale within other spheres, the exclusive licensee had standing to bring a patent infringement action if it joins the patentee. The *Waterman* court described the case of *Gayler v. Wilder*, 51 U.S. (10 How.) 477, 13 L.Ed. 504 (1850) as an example of an

exclusive licensee with standing to bring a Federal patent action in the name of the patentee:

> Such, for instance, is a grant of "the full and exclusive right to make and vend" within a certain district, reserving to the grantor the right to make within the district, to be sold outside of it. *Gayler v. Wilder*, 51 U.S. (10 How.) 477, 13 L.Ed. 504 (1850)

The instant published Federal Circuit opinion is contrary to the unambiguous statement of this Court in *Waterman* and undermines 148 years of clear and consistent rulings on the issue of patent licenses. The opinion will have the nefarious effect of denying standing to any exclusive patent license whose license applies to a field of use where other fields of use have been retained by the patentee. If only for this reason, this opinion must be reversed and vacated.

b. An exclusive licensee: A grant of the exclusive right to make or use or sell the patented invention, or any division thereof, and a promise, express or implied, that the patentee will not issue further licenses in the sphere of exclusivity.

The instant opinion correctly stated the test to applied to determine Textile's standing to bring a Federal patent action as an exclusive patent licensee:

> To qualify as an exclusive license, an agreement must clearly manifest the patentee's promise to refrain from granting to anyone else a license in the area of exclusivity (Appendix p. 8).

The basis of granting standing to an exclusive licensee was set forth by the Supreme Court in *Independent Wireless Co.* 269 U.S. 459 at 469, 46 S. Ct. 166 at 169-70, 70 L.E. 357 (1926):

> It seems clear then on principle and authority that **the owner of a patent who grants to another the exclusive right to make, use or vend the invention, which does not constitute a statutory assignment, holds the title to the patent in trust for such a licensee**, [emphasis added by Petitioner Textile] to the extent that

> he must allow the use of his name as plaintiff in any action brought at the instance of the licensee in law or in equity to obtain damage for the injury to this exclusive right by an infringer or to enjoin infringement of it. Such exclusive licenses frequently contain express covenants by the patent-owner and licensor to sue infringers that expressly cast upon the former the affirmative duty of initiating and bearing the expense of the litigation. But without such express covenants, **the implied obligation of the licensor to allow the use of his name is indispensable to the enjoyment by the licensee of the monopoly which by personal contract[5] the licensor has given** [Emphasis added by Petitioner]. Inconvenience and possibly embarrassing adjudication in respect of the validity of the licensor's patent rights, as the result of suits begun in aid of the licensee, are only the equitable and inevitable sequence of the licensor's contract, whether express or implied.

The law regarding the standing of exclusive patent licensees to bring an action based upon Federal patent law was further set forth in *Ortho Pharmaceutical Corp. v. Genetics Institute, Inc.* 52 F.3d 1026 (Fed. Cir. 1995), 1031-32:

> To have co-plaintiff standing in an infringement suit, a licensee must hold some of the proprietary sticks from the bundle of patent rights, albeit a lesser share of rights in the patent than for an assignment and standing to sue alone. See *Weinar v Rollform, Inc.* 744 F 2d. 803 223 USPQ 369, 374-75 (Fed. Cir. 1984) (exclusive licensee properly joined in suit; "two parties sharing the property rights represented by the patent may have respective rights protected").
>
> The proprietary rights granted by any patent are the rights to exclude others from making, using or selling the invention in the United States. A patent license may have the effect between the parties to the license of transferring some of those proprietary

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[5] Here, the Supreme Court has clearly stated that the source of standing by an exclusive licensee is a mere "personal contract". Such a patent license contract must be interpreted by the Federal Court pursuant to state contract law, here the law of Michigan, *Sun Studs, Inc. v Applied Theory Assocs.*, 772 F 2d 1557, 1561, 227 USPQ 81, 83-84 (Fed Cir 1985).

rights from the patentee to its licensee. Such license then does more than provide a covenant not to sue, *i.e.*, a "bare" license. In addition, the license makes the licensee a beneficial owner of some identifiable part of the patentee's bundle of rights to exclude others. Thus, a licensee with proprietary rights in the patent is generally called an "exclusive licensee". But it is the licensee's beneficial ownership of a right to prevent others from making, using or selling the patented technology that provides the foundation for co-plaintiff standing, not simply that the word "exclusive" may or may not appear in the license. As stated in *Philadelphia Brief Case Co. v. Specialty Leather Prods Co.*, 145 F.Supp. 425, 428, 111 USPQ 180, 182 (D.N.J.1956), *aff'd* 242 F. 2d 5151, 133 USPQ 100 (3rd Cir. 1957):

> [T]his so-called exclusive licensee, while only a licensee, comes so close to having truly proprietary interests in the patent, that the courts have held that he is equitably entitled to sue on the patent, provided he joins the true proprietor of the patent in such suit[.]

The consequences of recognizing co-plaintiff standing is that the licensee has a right to bring suit on the patent, albeit in the name of the licensor, whether or not the license so provides and regardless of the patentee's cooperation. Further, the patentee/licensor suffers the legal consequences of litigation brought in its name.

At 1030-1031, the *Ortho* court stated:

> Any other party seeking enforcement of the patent can sue, if at all, only with the patentee or in the name of the patentee. "Any rights of the licensee must be enforced through or in the name of the owner of the patent," and "never in the name of the licensee alone, unless that is necessary to prevent absolute failure of justice." *Waterman v McKenzie*, 138 US 252 at 255, 11 S.Ct. 334 at 335, 34 L.Ed. 923 (1891).

The instant Court of Appeals opinion recognized that the licensee may sue in his own name, as here, when the patentee is the infringer (see appendix page 7).

c. The exclusive patent rights may be divided between various fields of use.

In the case of *Brunswick Corp. v. U.S.*, 19 USPQ 2d 1702, 1705 (Ct.Cl. 1991), the United States Claims Court held that a licensee who had only been granted the right to make and use the patented item and only in a limited field of use had standing to sue for infringement:

> It is settled law in this court that a party holding an exclusive license (limited to a *specific field of use*) can maintain a suit, in the name of the patent owner for unlawful use of the patent if the patent owner has notice of and declines without just cause to joint in the suit. *Pratt & Whitney Co. v. United States*, 139 Ct.Cl. 540, 543 [114 USPQ 246] (1957). *Id.*, quoting *Independent Wireless Teleg. Co. v. Radio Corp. of Amer.*, 269 U.S. 459, 469, reh. denied, 270 U.S. 84 (1926) (emphasis added).

d. When given the opportunity, Mead failed to produce any supporting authority for the Court of Appeals' opinion and misrepresented the authority that it did produce.

After the Court of Appeals opinion was issued, Petitioner Textile filed a Motion for Rehearing with the Court of Appeals and Respondents were invited by the Court to submit a responsive brief thereto. Mead was unable to provide any legal authority to support the Court of Appeals opinion while groundlessly insinuating that there is no such thing as a field of use license. On page 13 of its Answer to Motion for Rehearing, Mead stated:

> To have standing to bring a claim for infringement, one must have received a transfer of one of the complete proprietary rights under a patent, that is, one must have received the right to exclude **all** [emphasis in original] others from making, using or selling the invention within

> the United States or a designated geographic territory thereof, and not merely a right to exclude a limited category of potential users. 35 USC §261 Enzo APA, supra; Etherington 290 F. 2d 28, 29 (5" Cir. 1961); Channel Master Core. v. JFD Electronics Corp., 260 F. Supp. 568, 571 (E.D.N.Y. 1966). Cf., E. W. Bliss Co. v. United States 253 U.S. 187, 64 L.Ed X52 (1920) (denying standing to licensee with exclusive right to sell invention to United States government). Therefore, even if Textile were correct and even if Mead had *sub silentio* transferred its proprietary right under the Patent to exclude others from making the invention for Mead and its customers (and it plainly did not), that limited "field of use" is too narrow to confer standing to sue for infringement.

This statement is utterly false because an exclusive field of use licensee has standing to sue for infringement if it joins the patentee as a party. Indeed, in this short paragraph, Mead misrepresented the rulings of all four cases that it cited as authority. In *Etherington v Hardee*, 290 F. 2d 28, 29 (5th Cir. 1961), the Plaintiff had obtained the exclusive license to manufacture, use and sell throughout the world patented mud guns and line jets, but only those to be used above ground. The issue, as stated by the 5th Circuit, was merely whether such an exclusive licensee of a field of use needed to join the patentee to have standing to bring an infringement action. The Court found that it did. The case does not say that such a field of use licensee does not have standing.

Similarly, in *Enzo APA & Sons v Geapag A.G.* 134 F.3d 1090, 45 USPQ 2d 1368 (Fed Cir. 1998), the issue was whether an oral exclusive license or a nunc pro tunc license executed after suit is brought, or some combination of the two, can confer standing. The Court concluded that under any of these circumstances the holder of title must be joined in order to confer standing. This case does not say that such a field of use licensee does not have standing.

In *Channel Master Corp. v JFD Electronics Corp.*, 260 F. Supp. 568, 571 (E.D.N.Y. 1966), the issue again was whether the patent holder needed to be joined as a party in an action brought by an exclusive licensee

of patented receiving antennas for TV and FM stations that did not include a license for other antennas such as "radar antennas". This case does not say that such a field of use licensee does not have standing.

E.W. Bliss Co. v United States, 253 U.S. 187 (1920) is yet another case where a licensee had sued in his own name without joining the patent holder. In *Bliss*, the Appellant was granted "the sole and exclusive license" to use the patented inventions for certain torpedoes to be sold only to the U.S. government. On request, Appellant granted the government the right to buy not more than 100 torpedoes from another company, with the amount of the royalty "to be later settled". Ultimately, the government purchased 50 torpedoes, but never paid any royalties since no contract really existed regarding the payment of any royalty. Appellant then tried to force the government to pay $500 per torpedo, but this demand was rejected by the government. Appellant sued the government in its own name to recover royalties and for patent infringement. Clearly, there was not, in *Bliss*, an assignment of the whole patent, of an undivided part of it, or of an exclusive right under it "within and throughout a specified part of the United States". Thus, the Court correctly found that Bliss had been granted a license and could not sue for patent infringement in its own name:

> Any assignment or transfer short of one of these is a mere license, giving the licensee no interest in the patent sufficient to sue at law **in his own name**, for infringement or in equity **without joining the owner of the patent**. [citing *Waterman v McKenzie*, 138 US 252, 11 S.Ct. 334, 34 L.Ed. 923 (1891), emphasis added]

Bliss does not hold (as repeatedly and falsely claimed by Mead) that an licensee with the exclusive right to sell to only one entity lacks standing to bring any infringement action. It merely suggests that such a licensee must join the patent holder as a party to the action[6]. The basis of this rule is merely to prevent the possibility of two suits on the same patent against the same infringer.

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[6] Beginning in the trial court and throughout these proceedings, Mead has repeatedly misrepresented the rule of *Bliss* by claiming that it holds that an exclusive license to sell to a single customer is insufficient to confer any standing for an infringement action.

There is no basis for Mead's claim that these cases deny the existence of standing to an exclusive field of use licensee that has joined the patent holder. It is significant that Mead can cite no case that suggests that the fields of use (which Mead itself first proposed in the trial court) consisting of "Mead customers" and "non-Mead customers" are not appropriate fields of use for purposes of standing for an exclusive licensee.

II. The rule of *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538 (Fed. Cir. 1995), cert. denied, 116 S.Ct. 184 (1995), is inapplicable to these proceedings.

Throughout these proceedings, Mead has relied almost exclusively upon the case of *Rite-Hite Corp. v. Kellev Co.*, 56 F.3d 1538 (Fed. Cir. 1995), cert. denied, 116 S.Ct. 184 (1995) to support its contention that Textile has been granted mere "contract rights" and not "patent rights", despite the Supreme Court mandate set forth in *Independent Wireless Co., supra*, that a patent license is a mere personal contract. Mead accurately described the *Rite-Hite* ruling as follows in its Reply Brief to the Court of Appeals:

> In *Rite-Hite*, the patentee had granted independent sales organizations ("ISO's") the "exclusive" rights to sell products made by the patentee in specified territories. This Court reasoned that, because the exclusive rights **were only contractual rights to sell the products of the patentee (instead of the exclusive right to sell the "invention")**, there was no conveyance of an interest under the patent, and, therefore, the ISO's had no standing to sue. Rite-Hite, 56 F.3d at 1553. [emphasis added here by Textile]

The rule of *Rite-Hite* has absolutely no applicability to the instant case. Textile has not been granted an exclusive right to sell mere products that contain a patented invention in a certain location. Even pursuant to the Court of Appeals and Mead, Textile has been granted the exclusive right to manufacture **the invention** itself and not the right to manufacture a product which merely contains the invention. The ruling of the *Rite-Hite* case has no applicability to Textile.

III. The parties' purchase agreement is not merely a "requirements" contract pursuant to UCC §2-306(1) as was found by the Federal Circuit, but an "exclusive dealing agreement" pursuant to UCC §2.306(2).

a. The opinion misidentified the instant contract as a mere "requirements" contract.

The basis of the opinion's misapprehension of the parties' rights in the instant agreement is set out at page 8 of the Appendix:

> This case presents the question of whether a requirements contract for a patented product automatically converts the exclusive supplier into an exclusive licensee of the patent. The contractual manufacturing rights of a party do not alone, however, confer a right to exclude all others from making an invention. To qualify as an exclusive license, an agreement must clearly manifest the patentee's promise to refrain from granting to anyone else a license in the area of exclusivity. The agreement between Mead and Textile does not clearly manifest a promise by Mead to do so.

This interpretation is unfounded. Mead is clearly prohibited from granting any further licenses as this would be a breach of its duty to use its best efforts to sell and promote the invention manufactured by Textile. Any action by Mead to curtail the market for the invention made by Textile is a breach of the parties' agreements. The source of this Court's misapprehension of the contractual duties of these parties was the Court's misidentification (at the urging of Mead's attorneys) of the instant contract as a mere "requirements" contract. There is a significant difference between a mere "requirements" contract and an "exclusive dealing agreement". In a requirements contract, the seller promises to sell to the buyer all of the buyer's requirements for the product, whatever they might be. The only implied duty of such a contract is the duty of good faith imposed on all contracts pursuant to the UCC. The buyer has no duty to the seller to create a market for the seller's product or even buy any of the goods at all. The seller may sell its goods to all other markets and is not restricted to selling to the buyer. This type of agreement is described in UCC §2-306(1).

An exclusive dealing agreement is quite a different matter. There, the seller/maker promises that it will sell to no one but the buyer/reseller. Because of this draconian restriction on the maker, the common law and UCC §2.306(2) impose an implied duty on the reseller in such a contract to promote and sell only the seller's product. These two subsections of the UCC, MCLA §440.2206; MSA §19.2306, state as follows:

> **Measuring quantity by output of seller or requirements of buyer; exclusive dealing agreement, obligations imposed.**
> Sec. 2306.(1) A term which measures the quantity by the output of the seller or the requirements of the buyer means such actual output or requirements as may occur in good faith, except that no quantity unreasonably disproportionate to any stated estimate or in the absence of a stated estimate to any normal or otherwise comparable prior output or requirements may be tendered or demanded.
> (2) **A lawful agreement by either the seller or the buyer for exclusive dealing in the kind of goods concerned imposes unless otherwise agreed an obligation by the seller to use best efforts to supply the goods and by the buyer to use best efforts to promote their sale**. [emphasis added].

While having features of a "requirements" contract, the instant contract is unquestionably an exclusive dealing agreement. That the Court of Appeals opinion found the implied duty prohibiting Mead from granting any additional licenses for the manufacture of the invention for resale to Mead's customers in the second source option of the agreement demonstrates that the panel does not understand the binding Michigan law, MCLA §440.2306(2). It was error for the Court of Appeals to ignore the "best efforts" duty imposed upon Mead by this section and interpret this agreement as a mere requirements contract.[7]

b. The UCC and the common law both impose very different duties upon the buyer/reseller [Mead] depending on whether the contract is a

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mere "requirements" contract or, as here, an exclusive dealing agreement.

In *Gesteter Corp. v Case Equipment Co.* 815 F.2d 806, 811 (1st Cir. 1987), the 1st Circuit stated:

> We recognize that the good faith obligation is not the same for a requirements contract and an exclusive dealing contract. Under a requirements contract the obligation is to use good faith in determining requirements. The good faith obligation under an exclusive dealing contract is for the seller to use "best efforts to supply the goods and the **buyer to use best efforts to promote the sale**." [emphasis added]

c. The duty to employ "best efforts" to sell and promote solely the invention as made by Textile, which is imposed upon Mead by §2-306(2) of the Michigan UCC, subjects Mead to significant liability and litigation exposure to Textile that does not obtain under a mere "requirements" contract and deprives Mead of any fundamental power to determine by itself, without taking the interests of Textile in this contract into account, the reasonableness of its marketing efforts of Textile's product.

In many cases which do not involve the Uniform Commercial Code (which automatically imposes the duty to employ best efforts on the buyer/reseller), courts must determine whether to impose such a duty based solely upon the necessity of establishing mutuality of obligation. Courts will only do so with great caution because such a duty imposes such serious and burdensome duties and potential liabilities upon such a party. As the Court stated in the case of *Kardios Systems Corp. v. Perkin-Elmer Corp.* 645 F.Supp. 506 at 509 (D.Md. 1986):

> The issue before this court is thus whether an implied covenant to use best efforts is necessary to establish mutuality of obligation in the present case. The existence of a best efforts obligation should not be lightly inferred since **"such an obligation subjects the licensee [here, MEAD would have that role] to significant litigation exposure [here, from Textile] and deprives him of the**

fundamental power of determining for himself the reasonableness of his marketing efforts. " [Emphasis added]

In a mere state law contract action, Mead would be liable to Textile for breach of its duty to use best efforts by impairing its duty to promote and expand Textile's exclusive market if it were to license third parties to make and sell the subject product. The Court of Appeal's finding that Mead is "free" to license third parties in derogation of its best efforts duties is without legal justification.

d. Because the exclusive dealing agreement seller [Textile] may not sell to anyone except the buyer [Mead] and is, in essence, "trapped" in the relationship, the exclusive sales agent/buyer [Mead] must consider the best interests of the Textile and itself as if they were one firm when promoting and exclusively selling the seller's goods.

Respondent Mead conceded on page 23 of their initial brief to the Federal Circuit in this action that the instant case is governed by the rule of *Tigg Corp. v Dow Corning*, 962 F.2d 1119 (3rd Cir. 1992). *Tigg* is a Federal Court of Appeals case which applies Michigan contract law to a contract very similar to the instant contract and which the Court found to have been both a requirements contract and an exclusive dealing agreement. The Court stated at page 1125:

> Second, we agree with the district court that Dow Corning had a duty under the agreements to use its best effort to promote RetroSil. The obligation to use best efforts to resell a product is imposed upon those buyers engaged in "exclusive dealing in the kind of goods concerned...." Mich. §440.2306(2). *See Lorenz*, 358 N.W. 2d at 854 n.4 (Brickley, J. concurring) [Lorenz Supply Company v. American Standard, Inc., 419 Mich 610, 358 NW2d 845 (1984)] This obligation is intended to protect the original seller, who ~~in~~ an exclusive arrangement depends solely upon the buyer to resell the goods. See *Wood v. Lucy, Lady Duff-Gordon*, 222 N.Y. 88, 118 N.E. 214 (1917). In a non-exclusive arrangement the buyer's efforts in reselling the product may have little effect on the original seller. If the buyer does not resell the product, the seller, without breaching the contract, may solicit

> orders from other potential buyers. By contrast, in an exclusive dealing arrangement, the seller has only one outlet for its goods. It is obligated not to sell to anyone except the buyer. In such a situation, the seller's interests are inextricably bound up with the success of the buyer in reselling the product. **The obligation placed on the buyer to use best efforts reflects its monopoly power; the exclusivity arrangement makes the seller as subject to the decisions of the buyer as a subsidiary within the buyer's firm. The obligation of best efforts forces the buyer/reseller to consider the best interests of the seller and itself as if they were one firm** [emphasis added].

Further, the Court noted that a requirements contract can also be an exclusive dealing contract, the Court stating at page 1125:

> Dow Corning contends that the agreements in this case were requirements contracts, not exclusive dealing agreements. There is no reason, however, why a requirements contract may not also involve an exclusive dealing restriction. Such a contract would obligate the buyer to buy its requirements from the seller and obligate the seller to sell only to the buyer. That is precisely the nature of the agreements between Tigg and Dow Corning. Dow Corning was obligated to buy its requirements from Tigg; thus Dow Corning owed a duty to set its requirements in good faith. Tigg was generally forbidden to sell to any other buyer; thus, Dow Corning owed a duty to use its best efforts to resell the product.

This is also precisely the nature of the agreements between Textile and Mead. Since the obligation to use best efforts always compels Mead to consider the best interests of Textile and itself as if they were one firm, Mead can not under any circumstances license any other manufacturer of the socks or permit an infringement by an unauthorized manufacturer without violating its duty to Textile to use its best efforts in reselling Textile's socks. Clearly, the recital at the beginning of the contract that Mead is able to supply all markets is entirely consistent with the obligation to supply all markets with socks made by Textile.

e. The "silence" of the parties' agreement regarding the ability of Mead to license third parties means that the best efforts duty is implied and Mead cannot license or do business with third parties in derogation of the market for the invention made by Textile's.

This Court's opinion placed great emphasis upon the agreements' "silence" concerning the right of Mead to license third parties (see Appendix page 8). However, the buyer's [Mead's] duty to use its best efforts does not depend upon any explicit language in the contract to use its best efforts and an agreement's silence concerning this term expressly means that the term is to be implied as a matter of law. At 1126, the Court in *Tigg, supra*, stated:

> Nor is it dispositive, as *Dow Corning* suggests, that the agreement did not expressly require that Dow Corning use its best efforts. The obligation to use best efforts is implied under Mich. §440.2306(2) (corresponding to U.C.C. §2-306(2)) **"unless otherwise agreed" whenever the parties have made a "contract to refrain from supplying any other dealer or agent...."** [emphasis added] Mich. §440.2306 (corresponding to U.C.C. §2-306) official comment 5. In order for an obligation to use best efforts to be implied, the contract need not involve special kinds of parties or goods; the contract need only preclude the seller from selling goods to any other buyer while the contract is in force.

There is no question that the instant contract precludes Textile from selling to third parties and the agreements' silence on the issue means that the duty to employ best efforts to market only Textile's product has been imposed upon Mead.

f. The exclusive sales agent, Mead, would violate the implied duty to employ its "best efforts" to promote and sell textile's product by dealing in a product that merely competes with the product of the principal, Textile, and thus, cannot grant any further licenses without a breach of that duty.

Not only would Mead violate its best efforts duty by licensing third parties to manufacture and sell the product and undercut the market for

Textile's goods: the exclusive sales agent [Mead] would violate the "best efforts" duty to market and promote Textile's goods by merely dealing in a product that competes with the product of the principal, Textile.

In the case of *Parev Products Co v Keach & Sons, Inc.* 124 F2d 147 (2nd Cir. 1941), the Plaintiff licensed the formula for its Kosher cooking oil to the Defendant in an exclusive dealing agreement. Since the court implied a duty to employ best efforts on the part of the Defendant to market the oil, the issue was whether Defendant could safely deal in a competing line of oil without breaching this implied duty to promote and market Plaintiff's oil. The court found that if the Plaintiff could show a loss of the sale of its product due to sales of the competing oil, Plaintiff could recover such damages since such action would be a breach of the duty to use best efforts. Clearly, if the exclusive sales agent, such as Mead, is prohibited from dealing in a product that merely competes with the principal Textile's product, it is clearly prohibited from transacting in that same product manufactured by a third party.

Similarly, in *Foster v Callaghan & Co.* 248 F 994 (S.D.N.Y. 1918), the plaintiff had written a multi-volume law treatise entitled "A Treatise upon Practice in the Courts of the United States". The Plaintiff and Callaghan entered into a contract for Callaghan to promote and market the treatise and Foster could not sell his books through another publisher. Later, Callaghan began to market a competing treatise about Federal Practice while claiming that it was the first book of its kind. Foster claimed that this assertion was false and claimed that this false assertion concerning the competing book interfered with Callaghan's obligation to promote his book. The Court stated:

> Whatever may be the rights of the defendant to compete with the plaintiff's book in the publication of some other, **there can be no competition which of itself affects the publication and sale of the plaintiff's book** [emphasis added]...In other words, this defendant under its contract cannot so act, in competition or otherwise, as to injure the rights of the plaintiff, which the plaintiff has confided in it. There is an implied condition that such conduct will not be followed. Therefore for the defendant to perform its part of the contract with the plaintiff requires it not to

> interfere with the sale of the plaintiff's book by another publication.
>
> When the plaintiff delivered his treatise to the defendant, he performed all the work that was required of him under the contract; but he would not be authorized to contract with a rival publisher. *Foster* at 947

The court found that Callaghan could not:

> fail to advertise it [Foster's book], or to so advertise some other book, publishing false statements as to that other book, which interfere with the sale of the plaintiff's book, for such conduct would be a failure "otherwise to promote the sale of the book". This implies an obligation of good faith, and to do anything which would make it impossible or unlikely that the trade would be well supplied with the books, so that the sale of the book would be promoted, would be a violation of the contract. Foster at 948.

Similarly, if Mead were to license a third party to manufacture the subject product for resale to an entity not yet a Mead customer, or for the third party's own use, such activity would necessarily impair the market for Textile's product because it would be a sale lost to the Textile product. This is forbidden by the implied best efforts duty. Since Mead would be liable to Textile pursuant to state contract law if it were to ever engage in such activity, Mead has certainly impliedly promised that it will license no such third parties and Textile's license to manufacture the product for all markets is unquestionably exclusive.

g. As the exclusive sales agent of Textile, Mead owes textile a fiduciary duty pursuant to Michigan law to not deal or allow dealing in market which is the subject of the exclusive sales agency contract, and this duty would necessarily prohibit the granting of additional licenses for the manufacture of the invention that would interfere with market for Textile's product.

The drafter's comment to MCLA 440.2306(2) (comment 5) clearly establishes that Mead is the exclusive sales agent and that Textile is its principal pursuant to the Michigan law of agency:

> Subsection (2), on exclusive dealing, makes explicit the commercial rule embodied in this Act under which the parties to such contacts are held to have impliedly, even when not expressly, bound themselves to use reasonable diligence as well as good faith in their performance of the contract. Under such contracts, **the exclusive agent** [Mead] is required, although no express commitment has been made, to use reasonable effort and due diligence in the expansion of the market or the promotion of the product, as the case may be. The **principal** [Textile] is expected under such a contract to refrain from supplying any other dealer or agent within the exclusive territory.

The Michigan Supreme Court has repeatedly laid down the rule that an exclusive sales agent [Mead] is a fiduciary to its principal [Textile] in an otherwise arms length business transaction, and is forbidden to deal in the subject matter of the agency for his own account and for his own benefit. In the case of *Stephenson v Golden,* 279 Mich 710; 276 NW 849 (1937), the Michigan Supreme Court held at 337:

> "An agent cannot properly possess any individual interests or represent any interest adverse to those of his principal in transactions which involve the subject matter of the agency, without the full knowledge and consent of his principal". 3 C.J.S. §139, p. 9.

In the case of *Burton v. Burton* 332 Mich 326; 51 NW2d 297 (1952), the Michigan Supreme Court stated at pages 336-337

> The relationship between principal and agent is well defined in 2 Am Jur, where it is said: {p. 337} "There are certain well-defined duties and liabilities which the agent owes to the principal. The agent is a fiduciary and owes to his principal the duty of good faith and loyalty. The agent is under the duty to use care, skill, and diligence, and to obey the instructions of his principal." (p

202) "It is a settled principle of equity that where a person undertakes to act as an agent for another, **he cannot be permitted to deal in the subject matter of that agency upon his own account and for his own benefit.**" (p 210) [emphasis added]

Because the Michigan law of agency forbids Mead from selling, promoting or dealing in the invention which is the subject of its exclusive sales agency without the knowledge and permission of Textile, Textile's license to manufacture the invention for Mead for resale to **all markets** is unquestionably exclusive.

h. The Court of Appeals' awkward interpretation of the parties' agreements is inconsistent with the entirety of those agreements.

The Court of Appeals interpreted the agreements as if the implied duty to use best efforts did not exist. Thus, it could find no explicit source in the agreements for the duty of Mead to purchase the product from Textile for resale to Mead's customers. Instead, it derived (created?) such a duty impliedly from the "Second Source Contingency" section (note that such a contingency does not otherwise impair the standing of an exclusive licensee and the instant opinion does not claim that it does. See *Ciba-Geigy Corp. v. Alza Corp.* 804 F. Supp 614 (D.N.J. 1992)).

If the implied duty to use best efforts is included in the agreements, all of the various clauses of the agreements are consistent and clearly impart the parties' intent. If that duty is ignored, numerous clauses express matters totally at odds with the Court of Appeals interpretation, such as the "all markets" clause and the "right to sue" clause. The parties clearly intended that the "best efforts" duty be part of these agreements

IV. Mead now implies that pursuant to Court of Appeals opinion, the parties agreements lack mutuality of obligation because Mead could always deal with third parties to the total exclusion of Textile.

On page 12 of its Answer to Motion for Rehearing in the Court of Appeals, Mead made a bold new claim that essentially announces that

Textile received an illusory promise from Mead in exchange for conveying title to the instant patent:

> Despite the arms' length negotiations, there is nothing in the Agreements which obligates Mead to continue to be in the business of selling socks, and, more important, nothing in the Agreements prevents Mead from deciding to leave the active buying and selling of socks and simply licensing the patent rights which it bargained to receive in the Agreement.

Mead is claiming that the consideration the Textile received in return for its patent rights was an "illusory promise". In the current edition of *West Legal Forms*, Volume 12, §3.4, Professor Bradford Stone, prominent author of West's ubiquitous paperback "UCC in a Nutshell", states the issue as follows:

> **§3.4 The Illusory Promise-Output and Requirements Contracts**
> A and B agree that A will sell to B certain goods, which B may "choose to order," or which B "wishes," "wants" or "desires," for a certain period of time. B's promise is illusory.

This is impossible, because if so, the contract lacks mutuality of obligation.[8]

a. Judge Cardozo imposes the implied duty to employ best efforts to save a contract otherwise lacking in mutuality of obligation.

The original source of the implied duty to employ best efforts arose in the 1917 case of *Wood v Lucy, Lady Duff-Gordon*, 222 N.Y. 88, 118 N.E. 214 (1917). There, Judge Cardozo recognized that when two parties enter into an exclusive dealing agreement, unless the party with the duty to sell and promote the product is charged with the duty employ its best

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[8]Mead may argue that the consideration received by Textile was the payment by Mead of 50% of the patent application expenses. This attempts to confuse the fact that it was Textile that paid 50% of such expenses for a patent that it traded away [according to Mead] for nothing.

efforts to do so, the contract lacks mutuality of consideration. The seminal importance of the *Lady Duff-Gordon* case was recognized by the 6th Circuit Court of Appeals in the case of *Permanence v Kennametal* 908 F2d 98, 101 (6th Cir. 1990) where the Court stated the facts of that case as follows:

> There, the defendant, a fashion designer, gave the plaintiff the exclusive privilege of marketing defendant's designs. The court implied an obligation to exploit the design, although there was not an express obligation to do so in the contract, **because defendant's sole revenue from the grant of the exclusive agency was to be derived from plaintiff's sale of clothes designed by defendant, and defendant was at plaintiff's mercy [emphasis added]**.

The Court further stated:

> In cases such as *Wood,* **courts have found it necessary to imply a covenant to employ best efforts as a matter of law because otherwise the contract at issue would lack mutuality of obligation and be inequitable** [emphasis added, citations omitted]. It would be inherently "unfair to place the productiveness of the licensed property solely within the control of the licensee, thereby putting the licensor at his mercy, without imposing [a reciprocal] obligation upon the licensee" *Vacuum Concrete Corp. v American Mach. & Foundry Co.* 321 F. Supp. 771, 773 (S.D.N.Y. 1971)

In *HML Corp. v General Foods Corp.* 365 F.2d 77, 80 (3rd Cir. 1966), the 3rd Circuit stated:

> Where an owner of a product gives an exclusive agency, solely in return for royalties, but no promise is expressed on the part of the agent to use his best efforts to promote it, the courts have implied such a promise. In the leading case of *Wood v Lucy, Lady Duff-Gordon*, 222 NY 88, 91,; 118 N.E. 214 (1917) Judge Cardozo said:

> "The law has outgrown its primitive stage of formalism when the precise word was the sovereign talisman, and every slip was fatal. * * * The defendant gave an *exclusive* [italics in the original] privilege. She was to have no right for at least a year to place her own indorsements or market her own design except through the agency of the plaintiff. The acceptance of the exclusive agency was an assumption of its duties. * * * We are not to suppose that one party was to be placed at the mercy of the other. * * * Many other terms of the agreement point the same way.
> * * * [T]he terms of the defendant's compensation are even more significant. Her sole compensation for the grant of an exclusive agency is to be one-half of all profits resulting from the plaintiff's efforts. **Unless he gave his efforts, she could never get anything** [emphasis added]".

Both the instant case and *Lady Duff-Gordon* are nearly identical in that unless Mead is compelled by the implied statutory duty to employ its best efforts to resell the product, there will never be any profits for Textile and the contract would lack mutuality of consideration.

CONCLUSION

The Federal Circuit in the instant opinion clearly erred by effectively abrogating standing for exclusive field of use patent licenses and by ignoring the best efforts duty imposed by Michigan contract law. The abrogation of standing for field of use licensees will seriously undermine over 100 years of Supreme Court precedent regarding such standing and is grounds enough for this Court to hear and vacate this unfounded opinion.

That the opinion is in error is supported by the fact that in its Answer to Textile's Motion for Rehearing in the Court of Appeals, Respondent Mead could cite no authority to dispute the fact that the instant agreement is an exclusive dealing agreement pursuant to UCC §2.306(2) and that such controlling law prohibits Mead from licensing third parties to manufacture the product. It has intentionally misstated the rule of most of the patent cases upon which it relies. Its sole response to this petition will be a groundless allegation that Textile has only "contract" rights, not patent

rights. There is no basis in the law for Mead's analysis and it is unable to provide any support for the Court of Appeals' precedential opinion.

The opinion must be vacated and reversed with a finding that Textile is the exclusive licensee to manufacture this product for resale to all markets and that it has standing to bring the instant patent infringement action.

The Writ of Certiorari should be granted.

Respectfully submitted,

Robert W. Roddis
Attorney for Petitioner
June 22, 1998

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UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

TEXTILE PRODUCTIONS, INC.,

Plaintiff,

Case No. 96-71344

Judge O'Meara
Magistrate Carlson

THE MEAD CORPORATION, et al.,

Defendants

_____/

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_____/

ORDER OF DISMISSAL

At a session of said Court held in Detroit, Michigan on 12-30-96

PRESENT: Hon. John Corbett O'Meara
U.S. District Court Judge

This matter is before the Court upon the Motion for Summary Judgment of Defendants, The Mead Corporation and Fiber Trim Sewing Company, filed on November 12, 1996. The Court, being duly advised in the premises, and after reviewing the Briefs and hearing oral argument in open court from the parties, finds that this Motion is well-taken, for the reasons given from the bench. Accordingly, Defendants' Motion for Summary Judgment is granted and this action is hereby dismissed with prejudice. All other pending motions are now moot and are therefore denied.

Costs awarded to Defendants.

IT IS SO ORDERED:

/s/

_____

Judge O'Meara

APPROVED AS TO FORM:

_____

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UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

TEXTILE PRODUCTIONS, INC.

Plaintiff,

No. 96-CV-71344

v.

Hon. John Corbett O'Meara

THE MEAD CORPORATION, et al.

Defendants.

ORDER DENYING PLAINTIFF'S MOTION FOR RECONSIDERATION

Before the court is Plaintiff's motion for reconsideration filed January 9, 1997. The court dismissed Plaintiff's action at a hearing December 19, 1996. At the hearing, the court granted Defendants' motion for summary judgment on the basis that Plaintiff lacked standing to bring a patent action because Plaintiff did not have an exclusive property interest in the patent at issue. An order of dismissal was entered December 30, 1996.

In order to prevail on a motion for reconsideration, "[t]he movant shall not only demonstrate a palpable defect by which the Court and the parties have been misled but also show that a different disposition of the case must result from a correction thereof." LR 7.l(h)(3) (E.D. Mich. May, 1996). Having reviewed Plaintiff's motion, the court concludes that Plaintiff has failed to demonstrate a palpable defect by which the court was misled that would require a different disposition of the case.

Accordingly, **IT IS HEREBY ORDERED** that Plaintiff's January 9, 1997 motion for reconsideration is **DENIED.**

/s/

John Corbett O'Meara
United States District Judge

Dated: Jan 15, 1997

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

97-1245

TEXTILE PRODUCTIONS, INC., Plaintiff- Appellant,

v.

MEAD CORPORATION and FIBER TRIM SEWING COMPANY, Defendants- Appellees.

Robert Warren Roddis, Attorney, of Grosse Pointe Farms, Michigan, argued for plaintiff-appellant.

Scott A. King, Thompson Hine & Flory LLP, of Dayton, Ohio, argued for defendants-appellees. With him on the brief was Mark P. Levy.

On Appeal from: United States District Court for the Eastern District of Michigan

Judge O'Meara

DECIDED: January 28, 1998

Before LOURIE, Circuit Judge, ARCHER, Senior Circuit Judge,* and RADER, Circuit Judge.

RADER, Circuit Judge.

The United States District Court for the Eastern District of Michigan dismissed Textile Production, Inc.'s (Textile's) complaint with prejudice in favor of The Mead Corporation (Mead) and Fiber Trim Sewing Company (Fiber Trim). Because Textile is not an exclusive licensee and therefore has no standing to sue for patent infringement, this court affirms the district court's dismissal of Textile's infringement claim. However, because Textile may have also asserted a claim for breach of contract against Mead, this court vacates the district court's dismissal of the complaint and remands with instructions.

I. During the late 1980s, employees of Mead and Textile collaborated on solving a problem for Ford Motor Company, one of Mead's customers. During assembly of its cars, Ford needed to pass a large bundle of wires through a narrow opening in the interior control panel and then quickly

separate the wires for installation. Employees at Mead and Textile invented a sock-like spandex harness that allowed Ford to perform this operation more efficiently. In October 1989, Textile filed a United States patent application on behalf of the inventors of the harness.

In February 1990, while the patent application was still pending, Textile and Mead executed a General Agreement and a Purchase Agreement. Under the General Agreement, the parties agreed to split the costs of prosecuting the application and to concurrently execute the Purchase Agreement. The General Agreement also contained two other relevant provisions:

5. Upon conclusion of the examination of the PATENT APPLICATION, [Textile] shall assign its entire interest in and to any and all patents derived therefrom to [Mead].

6. Should any aforesaid assigned patent be proposed by [Mead] for reissue or reexamination, or become the subject of litigation, [Mead] shall give reasonable notice to [Textile] and shall allow [Textile] to participate, through its . . . counsel, in any such proceeding on any reasonable basis directed to protecting [Textile's] interests therein and in this Agreement. All legal expenses incurred by either party relating to this paragraph shall be shared on an equal basis by both [Textile] and [Mead].

The Purchase Agreement provided that Mead would "purchase" and Textile would "manufacture and supply" 100% of Mead's "requirements" for the wire harness sock product. Textile was to be Mead's "exclusive source" and Mead was to be Textile's "sole customer" for the "PRODUCT." The Purchase Agreement defined the "PRODUCT" as anything "covered within the literal description found in any then currently existing claim" of the pending U.S. patent application "or any U.S. patent which may be granted thereon." The Purchase Agreement also had a "second source contingency" provision. This provision provided:

16. Second Source Contingency. (a) If [Textile] cannot or shall not meet [Mead's] reasonable delivery requirements for the PRODUCT, then [Mead] shall have the right to obtain elsewhere (for the duration of [Textile's] failure to supply) the PRODUCT in the amount of any shortfall in the PRODUCT between what [Textile] can supply and what [Mead] requires; provided however, [Textile] shall be given (i) reasonable notice of [Mead's] intent to seek a second source, and (ii) an opportunity to either expand its own facilities within a reasonable time, or subcontract for the additional required capacity, and thus fully meet [Mead's] demands. . . .

(b) In the event that a customer of [Mead] requires a second source of supply of the PRODUCT, [Mead] has the right to grant the necessary

licenses so that the customer shall have the right to obtain the PRODUCT from a source other than [Textile] and [Mead] shall split with [Textile] any royalty fees received from such other source by [Mead] . . . .

The Purchase Agreement set its own term as the greater of (1) three years, (2) the pendency of the U.S. patent application, or (3) the term of any last-to-expire U.S. patent that issued.

On May 21, 1991, the application issued as U.S. Patent No. 5,016,859 ("the '859 patent"). Under the General Agreement, Textile assigned the patent to Mead. The parties performed satisfactorily under the Purchase Agreement until roughly July 1992, when Textile's ownership changed hands. At that point, Mead claims that Ford began to reject Textile's harnesses with increasing frequency. Mead also asserts that Textile did little or nothing to eliminate the defects. Textile responds that it was doing the best it could.

In March 1995, without notifying Textile, Mead contacted Fiber Trim about manufacturing harnesses. Mead purchased part of its requirements from Fiber Trim until September 1995. At that point, Textile discovered that Fiber Trim was manufacturing the harnesses. In the ensuing dispute, Mead notified Textile that it was suspending performance under the Purchase Agreement.

Textile filed suit against Mead and Fiber Trim, alleging that Textile was an exclusive licensee of the '859 patent with an exclusive nationwide license to make the invention and that Mead and Fiber Trim had infringed this right. Textile filed a motion for partial summary judgment of liability for breach of contract against Mead and for patent infringement against both Mead and Fiber Trim. Mead and Fiber Trim filed a motion for summary judgment challenging Textile's standing to assert patent infringement. The district court found that Textile did not have standing to sue for patent infringement as an exclusive licensee, denied all other motions as moot, and dismissed the complaint with prejudice. Textile appeals.

II. The question of standing to sue for patent infringement is one which this court reviews de novo. See *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1551, 35 USPQ2d 1065, 1074 (Fed. Cir. 1995) (in banc). Only a patentee may bring an action for patent infringement. See 35 U.S.C. § 281 (1994) ("A patentee shall have remedy by civil action for infringement of his patent."). Title 35 defines "patentee" as the party to whom the patent issued or any successors in title to the patent. See 35 U.S.C. § 100(d) (1994). A licensee is not entitled to bring suit in its own name as a patentee, unless the licensee holds "all substantial rights" under the patent. See *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 875,

20 USPQ2d 1045, 1048-49 (Fed. Cir. 1991). Such a licensee is in effect an "assignee" and therefore a patentee. See id. at 874-75.

Thus, although a patentee has standing to sue in its own name, an exclusive licensee that does not have all substantial rights has standing to sue third parties only as a co-plaintiff with the patentee. See *Abbott Lab. v. Diamedix Corp.*, 47 F.3d 1128, 1130-33, 33 USPQ2d 1771, 1773-75 (Fed. Cir. 1995) (holding that a patentee-licensor must be allowed to intervene in a suit brought improperly by an exclusive licensee because the licensee had no standing to bring the suit alone). At least one exception to that rule exists, however: an exclusive licensee that does not have all substantial rights does have standing to sue in his own name when "necessary to prevent an absolute failure of justice, as where the patentee is the infringer, and cannot sue himself." *Waterman v. Mackenzie*, 138 U.S. 252, 255 (1891); see also *Littlefield v. Perry*, 88 U.S. (21 Wall.) 205, 223 (1874) (holding that plaintiff was an assignee, but stating that even if he were an exclusive licensee, he could bring suit in his own name, because the patentee was the infringer); *Ortho Pharm. Corp. v. Genetics Inst., Inc.*, 52 F.3d 1026, 1030, 34 USPQ2d 1444, 1447 (Fed. Cir. 1995). On the other hand, a bare licensee has no standing at all. See *Rite-Hite*, 56 F.3d at 1552 (bare licensees have no standing); Ortho, 52 F.3d at 1034.

Determining whether a licensee is an exclusive licensee or a bare licensee is a question of ascertaining the intent of the parties to the license as manifested by the terms of their agreement and examining the substance of the grant. See *Ortho*, 52 F.3d at 1033-34. The use of the word "exclusive" is not controlling; what matters is the substance of the arrangement. See id. at 1032. Because patent rights are rights to "exclude others," see 35 U.S.C. § 154(a)(1), a licensee is an exclusive licensee only if the patentee has promised, expressly or impliedly, that "others shall be excluded from practicing the invention" within the field covered by the license. *Rite-Hite*, 56 F.3d at 1552. Put another way, an exclusive license is "a license to practice the invention . . . accompanied by the patent owner's promise that others shall be excluded from practicing it within the field of use wherein the licensee is given leave." *Western Elec. Co. v. Pacent Reproducer Corp.*, 42 F.2d 116, 118 (2d Cir. 1930). Thus, if a patentee-licensor is free to grant licenses to others, licensees under that patent are not exclusive licensees.

III. In this case, Textile asserts that it is an exclusive licensee — not an assignee — yet it seeks to bring an infringement action in its own name. Normally, this alone would be sufficient grounds to dismiss Textile's infringement claim. See *Abbott Lab.*, 47 F.3d at 1132. However, Textile invokes the exception outlined above, claiming that although Mead is the patentee, it is also "liable as an infringer." See 35 U.S.C. § 271(b).

However, only an exclusive licensee has standing to sue for infringement, even under the exception outlined above. The task before this court, therefore, is to determine whether Textile is actually an exclusive licensee or is simply a bare licensee.

This case presents the question of whether a requirements contract for a patented product automatically converts the exclusive supplier into an exclusive licensee of the patent. The contractual manufacturing rights of a party do not alone, however, confer a right to exclude all others from making an invention. To qualify as an exclusive license, an agreement must clearly manifest the patentee's promise to refrain from granting to anyone else a license in the area of exclusivity. The agreement between Mead and Textile does not clearly manifest a promise by Mead to do so.

The terms of paragraphs (a) and (b) of the "second source contingency" provision, however, in combination with Mead's covenant to purchase all its requirements from Textile, do restrict Mead's ability to license third parties to some extent. Mead's express covenant to purchase all its requirements from Textile prevents Mead from licensing others to make the invention for Mead. Although paragraph (a) makes it clear that the restriction is not absolute, any right Mead has to license others to supply its own requirements arises only on the occurrence of conditions precedent. These conditions require a shortfall in Textile's performance and an opportunity to meet Mead's demands.

Similarly, paragraph (b) of the "second source contingency" provision, as properly construed, contains an implied promise that Mead will not license others to make the invention for Mead's customers. Again, although the paragraph expressly demonstrates that Mead has the right to do so, this right arises only on occurrence of a condition precedent, namely, that a Mead customer "requires" it.

However, both Agreements are silent about Mead's ability to grant licenses to suppliers for non-Mead customers or to those who wish to make the invention for their own use. In the face of Textile's promise to "assign its entire interest in and to any and all patents derived therefrom to [Mead]," this court must assume that Mead retained such rights. Thus, Mead did not promise that all others (beyond Textile) "shall be excluded from [making the invention]." *Western Elec.*, 42 F.2d at 118. Mead retained the right to license third parties to manufacture the harness for their own use or for sale to others. In sum, Mead did not grant Textile the rights of an exclusive licensee, but retained for itself important rights to license the invention to others.

In an effort to show that the Agreements result in more than just a requirements contract coupled with a bare license, Textile points to three other aspects of the Agreements. First, Textile asserts that because the term of the Purchase Agreement is coextensive with the term of the '859 patent, it shows the parties intended to grant an exclusive license under the patent. Yet, this provision of the Agreement is just as consistent with a bare license as it is with an exclusive license. Second, Textile points to the requirement that Mead split any royalty with Textile if paragraph (b) of the "second source contingency" provision is ever invoked. Although this is not a provision ordinarily found in a bare license agreement, it is not inconsistent with a bare license. More importantly, it does not evidence a covenant by Mead to not permit others to make the invention. Finally, Textile points to the General Agreement's "participation in litigation" provision. Again, however, this provision does not show that Mead gave Textile an exclusive right to make the invention. The right to participate in litigation does not necessarily encompass the right to participate as a party. Even if this provision were read broadly to give Textile an independent right to sue in Mead's name, such a provision would be ineffectual of its own force. A "right to sue" provision within a license cannot, of its own force, confer standing on a bare licensee. See *Ortho*, 52 F.3d at 1034. Accordingly, the district court correctly determined that Textile was not an exclusive licensee of the '859 patent and had no standing to assert patent infringement.

IV. After correctly determining that Textile had no standing to assert a claim of patent infringement, the district court denied all other pending motions as moot and dismissed the entire action with prejudice. The district court correctly dismissed the infringement claim with prejudice because Textile had its chance to show standing and failed. However, Textile apparently also asserted a breach of contract claim against Mead. If so, the district court lacked jurisdiction to dismiss that claim on the merits. In other words, without jurisdiction over the contract claim, the district court could not dismiss it on the merits.

Textile has not directly raised this issue in this court. However, this court may raise an issue of a lower court's subject matter jurisdiction sua sponte. See *Hambsch v. United States*, 857 F.2d 763, 764-65 (Fed. Cir. 1988). "[E]very federal appellate court has a special obligation to 'satisfy itself not only of its own jurisdiction, but also that of the lower courts in a cause under review,' even though the parties are prepared to concede it." *Bender v. Williamsport Area Sch. Dist.*, 475 U.S. 534, 541 (1986) (quoting Mitchell v. Maurer, 293 U.S. 237, 244 (1934)).

Admittedly, it is unclear whether Textile actually asserted a breach of contract claim against Mead. Mead denies it, even though Textile's complaint may fairly be said to allege facts sufficient to make out such a

claim, and the record clearly shows that Textile had a motion pending for summary judgment on such a claim. See Plaintiff's Motion for Partial Summary Judgment, or Alternatively for a Preliminary Injunction, ¶ 7a.

Assuming that Textile did assert a breach of contract claim, the district court correctly dismissed it, because the court did not have subject matter jurisdiction over the contract claim after it dismissed the patent infringement claim on the merits. Fiber Trim and Textile are both Michigan corporations; thus, the action could not be supported by diversity jurisdiction. See 28 U.S.C. § 1332(a), (c)(1). Therefore, when coupled with the patent infringement claim, only supplemental jurisdiction supported the breach of contract claim. See 28 U.S.C. § 1367(a) (1994). Upon dismissal of the patent infringement claim for lack of standing, the district court lacked supplemental jurisdiction to consider the contract claim.[*] See 28 U.S.C. § 1367(c)(3); *Gaia Techs., Inc. v. Reconversion Techs., Inc.*, 104 F.3d 1296, 1297, 41 USPQ2d 1134, 1140 (Fed. Cir. 1996) (holding that when a patent infringement claim is the jurisdiction-conferring claim and is dismissed for lack of section 281 standing, a district court has no discretion to exercise supplemental jurisdiction over pendent state law claims), amending 93 F.3d 774, 781, 39 USPQ2d 1826, 1832 (Fed. Cir. 1996).

However, a lack of subject matter jurisdiction usually justifies only a dismissal, not a dismissal with prejudice. See *Fishburn v. Brown*, 125 F.3d 979, 981 (6th Cir. 1997) ("[A]bsent subject matter jurisdiction the court has no authority to rule on the merits of [a] claim[]."); see also *Crotwell v. Hockman-Lewis Ltd.*, 734 F.2d 767, 769 (11th Cir. 1984) ("The district court properly concluded that it lacked subject matter jurisdiction. For some inexplicable reason, the defendants' motion to dismiss was granted 'with prejudice.' This was error. Since the court lacked subject matter jurisdiction over the action, it had no power to render a judgment on the merits.").

Thus, assuming that Textile did assert a breach of contract claim, the district court should have dismissed the contract claim without prejudice for lack of subject matter jurisdiction. It may well be that Textile intentionally dropped or waived its breach of contract claim at some point in the proceedings below. Based on the record before this court, however, it appears otherwise. Therefore, this court vacates the district court's dismissal of the complaint with prejudice and remands to the district court to determine whether Textile did assert a breach of contract claim. If it did, this court instructs the district court to enter an order dismissing Textile's patent infringement claim with prejudice, and its breach of contract claim against Mead without prejudice. If not, the district court should renew its original dismissal.

V. Accordingly, this court affirms the district court's dismissal of Textile's infringement claim, vacates the district court's dismissal of the complaint, and remands with instructions.

COSTS Each party shall bear its own costs.

AFFIRMED-IN-PART, VACATED-IN-PART, and REMANDED WITH INSTRUCTIONS

United States Court of Appeals for the Federal Circuit
97-1245

TEXTILE PRODUCTIONS, INC.,

Plaintiff-Appellant
v.
MEAD CORPORATION
and FIBER TRIM SEWING COMPANY,

Defendants-Appellees.

ORDER

A combined petition for rehearing and suggestion for rehearing in banc having been filed by the APPELLANT, and a response thereto having been invited by the court and filed by the APPELLEE, and the petition for rehearing having been referred to the panel that heard the appeal, and thereafter the suggestion for rehearing in banc and response having been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is ORDERED that the petition for rehearing be, and the same hereby is, DENIED and it is further ORDERED that the suggestion for rehearing in banc be, and the same hereby is, DECLINED. The mandate of the court will issue on March 31, 1998

FOR THE COURT,
JAN HORBALY, CLERK

Dated: March 24, 1998

/s/

Alex Van Veen
Staff Law Clerk

cc: ROBERT W. RODDIS
SCOTT A. KING

TEXTILE PRODUCTIONS V MEAD CORP, 97-1245 (DCT - 96-71344)

Note: Pursuant to Fed. Cir. R. 47. 6, this order is not citable as precedent. It is a public record.

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

97-1245

TEXTILE PRODUCTIONS, INC.,
Plaintiff-Appellant
MEAD CORPORATION
and FIBER TRIM SEWING COMPANY,
Defendants-Appellees.

JUDGMENT

ON APPEAL from the United States District Court for the Eastern District of Michigan

in CASE NO(S) 96-71344

This CAUSE having been heard and considered, it is

ORDERED and ADJUDGED:

AFFIRMED-IN-PART, VACATED-IN-PART, and REMANDED WITH INSTRUCTIONS

ENTERED BY ORDER OF THE COURT

January 28, 1998

/s/

Jan Horbaly, Clerk

ISSUED AS A MANDATE: MARCH 31, 1998

EASTERN DISTRICT OF MICHIGAN
UNITED STATES DISTRICT COURT
SOUTHERN DIVISION

TEXTILE PRODUCTIONS, INC.

Plaintiff,

No. 96-CV-71344
Hon. John Corbett O'Meara

THE MEAD CORPORATION and
FIBER TRIM SEWING COMPANY,

Defendants.
_____/

AMENDED ORDER OF DISMISSAL

On December 30, 1996, the court dismissed Plaintiff s complaint with prejudice because it found that Plaintiff lacked standing to assert a patent infringement claim. On April 3, 1998, the U.S. Court of Appeals for the Federal Circuit affirmed the court's finding as to standing, but vacated the court's dismissal of the complaint with prejudice. The appellate court has instructed this court to determine whether Plaintiff had asserted a breach of contract claim; if Plaintiff did, that claim should have been dismissed without prejudice for lack: of subject matter jurisdlictiun.

After reviewing Plaintiff's complaint and the record, the court concludes that Plaintiff's complaint may be read to allege a contract claim against Mead Corporation. Compl. at ¶¶8, 12-18, 21-23, 25. To the extent Plaintiff's complaint asserts a state law contract claim, this court lacks subject matter jurisdiction to rule on its merits because the parties are not diverse.

Accordingly, **IT IS HEREBY ORDERED** that Plaintiffs patent infringement claim is DISMISSED WITH PREJUDICE.

It is further **ORDERED** that Plaintiff's breach of contract claim against Mead Corporation is **DISMISSED WITHOUT PREJUDICE** for lack of subject matter jurisdiction.

/s/

John Corbett O'Meara
United States District Judge

Dated: APR 09, 1998

Statutes

Uniform Commercial Code §2-306; MCLA §440.2306 :

> **Measuring quantity by output of seller or requirements of buyer; exclusive dealing agreement, obligations imposed.**
> Sec. 2306.(1) A term which measures the quantity by the output of the seller or the requirements of the buyer means such actual output or requirements as may occur in good faith, except that no quantity unreasonably disproportionate to any stated estimate or in the absence of a stated estimate to any normal or otherwise comparable prior output or requirements may be tendered or demanded.
> (2) A lawful agreement by either the seller or the buyer for exclusive dealing in the kind of goods concerned imposes unless otherwise agreed an obligation by the seller to use best efforts to supply the goods and by the buyer to use best efforts to promote their sale.

Drafter's comment to UCC §2-306(2):

> Subsection (2), on exclusive dealing, makes explicit the commercial rule embodied in this Act under which the parties to such contacts are held to have impliedly, even when not expressly, bound themselves to use reasonable diligence as well as good faith in their performance of the contract. Under such contracts, the exclusive agent is required, although no express commitment has been made, to use reasonable effort and due diligence in the expansion of the market or the promotion of the product, as the case may be. The principal is expected under such a contract to refrain from supplying any other dealer or agent within the exclusive territory.

28 U.S.C. §1338(a):

> The district courts shall have original juridiction of any civil action arrising under any Act of Congress relating to patents,

plant variety protection, copyrights and trade-marks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.

28 U.S.C. §1254(1):

Courts of appeals; certiorari; certified questions
Cases in the courts of appeals may be reviewed by the Supreme Court by the following methods:
(1) By writ of certiorari granted upon the petition of any party to any civil or criminal case, before or after rendition of judgment or decree;

28 U.S.C. §1295(a)(1):

Jurisdiction of the United States Court of Appeals for the Federal Circuit
(a) The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction -
(1) of an appeal from a final decision of a district court of the United States, the United States District Court for the District of the Canal Zone, the District Court of Guam, the District Court of the Virgin Islands, or the District Court for the Northern Mariana Islands, if the jurisdiction of that court was based, in whole or in part, on section 1338 of this title, except that a case involving a claim arising under any Act of Congress relating to copyrights, exclusive rights in mask works, or trademarks and no other claims under section 1338(a) shall be governed by sections 1291, 1292, and 1294 of this title;

35 U.S.C. §100(d):

When used in this title unless the context otherwise indicates - (d) The word "patentee" includes not only the patentee to whom the patent was issued but also the successors in title to the patentee.

35 U.S.C. §154(a)(1):

> (a) In general. (1) Contents. Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States, and, if the invention is a process, of the right to exclude others from using, offering for sale or selling throughout the United States, or importing into the United States, products made by that process, referring to the specification for the particulars thereof.

35 U.S.C. §261:

> **Ownership; assignment**
> Subject to the provisions of this title, patents shall have the attributes of personal property. Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States. A certificate of acknowledgment under the hand and official seal of a person authorized to administer oaths within the United States, or, in a foreign country, of a diplomatic or consular officer of the United States or an officer authorized to administer oaths whose authority is proved by a certificate of a diplomatic or consular officer of the United States, or apostille of an official designated by a foreign country which, by treaty or convention, accords like effect to apostilles of designated officials in the United States, shall be prima facie evidence of the execution of an assignment, grant or conveyance of a patent or application for patent. An assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase or mortgage.

35 U.S.C. §271(a) and (b):

> (a) Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.
> (b) Whoever actively induces infringement of a patent shall be liable as an infringer.

35 U.S.C. §281:

> **Remedy for infringement of patent**
> A patentee shall have remedy by civil action for infringement of his patent.

FILED
JUL 17 1998
OFFICE OF THE CLERK
SUPREME COURT, U.S.

No. 97-2064

In The

Supreme Court of the United States

October Term, 1997

TEXTILE PRODUCTIONS, INC.,

Petitioner,

vs.

THE MEAD CORPORATION
and FIBER TRIM SEWING COMPANY,

Respondents.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Does a decision of the Federal Circuit Court of Appeals which interprets the provisions of a contract and applies state law contract doctrines present this Court with a novel and unsettled question of federal law?

2. When the undisputed facts establish that the plaintiff assigned to the defendant all rights under any to be issued patent in exchange for a contract to manufacture the defendant's "requirements" for an invention, does a district court err in holding that the plaintiff has no standing to sue the defendant for patent infringement?

LIST OF PARTIES

The parties to this case are Textile Productions, Inc., The Mead Corporation and Fiber Trim Sewing Company; the parties have no publically traded parent or nonwholly owned subsidiary companies.

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OPINIONS BELOW

The Opinion of the United States Court of Appeals for the Federal Circuit, reported at 134 F.3d 1481 (Fed. Cir. 1998), affirmed the decision of the United States District Court for the Eastern District of Michigan, which granted summary judgment in favor of Respondents, The Mead Corporation ("Mead") and Fiber Trim Sewing Company ("Fiber Trim"). The Federal Circuit denied a Petition for Rehearing and Rehearing *En Banc*.

JURISDICTION

Petitioner, Textile Productions, Inc. ("Textile"), brought this action under 28 U.S.C. § 1338, asserting that Mead and Fiber Trim were infringing a patent owned by *Mead*. The District Court held that Textile had no proprietary rights under Mead's patent and no standing to assert claims for patent infringement, and, therefore, dismissed the Complaint. The Federal Circuit found that Textile had no patent rights, but only state law claims for breach of contract, and affirmed the dismissal for lack of federal subject matter jurisdiction. This Court has jurisdiction under 28 U.S.C. § 1254(1).

STATEMENT OF THE CASE

The facts of the case are substantially set forth in the Opinion, 134 F.3d at 1482-1483. Mead and Textile employees jointly invented a wire harness sock, and Textile filed a patent application. *Id.* at 1482. During the

pendency of the application, Textile and Mead executed two agreements ("Agreements") whereby Textile agreed to "assign its entire interest in and to any patents derived" from the application to Mead; in exchange, Mead promised to pay half of the patent prosecution expenses, and to purchase from Textile 100% of Mead's "requirements" for the socks for the longer of three years, the pendency of the application, or the life of the patent, if one were to ever issue. *Id.* at 1482-1483. A patent (U.S. Patent No. 5,016,859, the "Patent") eventually did issue, and, in accordance with the Agreements, Textile assigned its rights under the Patent to Mead.

The circumstances surrounding the execution of the Agreements – presented through the affidavit of Textile's then president – were undisputed. Textile's president believed that the Agreements were in Textile's best interests because anticipated future demand for the socks was unknown, expenses associated with the attempt to obtain a patent were mounting, Mead was required to purchase socks from Textile even if the patent application were unsuccessful and he was confident in the ability of Textile to manufacture quality products and provide satisfactory service to Mead. Affirmation of Ronald Billbury ("Billbury Aff."), ¶¶8-9.[1] Textile's president also testified that he understood that the Agreements assigned to Mead all rights under any to be issued patent, and that neither he (as a co-inventor) nor Textile (as his employer) retained any patent rights. *Id.* at ¶¶7-12. Instead, Textile traded

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[1] The Billbury Aff. was included as pages 186-206 of the Appendix for the Federal Circuit.

any patent rights for the contractual manufacturing rights provided by the Agreements. *Id.*

By their express terms, the parties' Agreements did not (1) convey to Textile any express right or license under any to be issued patent; (2) permit Textile to manufacture socks other than for Mead; (3) permit Textile to sell socks to third parties (unless Mead consented); (4) grant Textile a right to initiate infringement actions; or (5) prohibit Mead from licensing third parties to manufacture, use and/or sell the socks to persons other than Mead.

The District Court found that the Agreements did not transfer any rights to Textile under the Patent, and, therefore, Textile had no standing to assert a patent infringement claim. The Federal Circuit affirmed, framing the issue as "whether a requirements contract for a patented product automatically converts the exclusive supplier into an exclusive licensee of the patent," with standing to sue for infringement. 134 F.3d at 1484. Finding that "contractual manufacturing rights of a party do not alone . . . confer a right to exclude all others from making an invention," the Federal Circuit held that Textile did not own any of the proprietary rights represented by the Patent, and, therefore, affirmed the dismissal of the Complaint.[2] *Id.*

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[2] The District Court dismissed the Complaint with prejudice; the Federal Circuit held that the Complaint could fairly be read to assert state law breach of contract claims, and that any state law claims should be dismissed without prejudice. 134 F.3d at 1485-1486.

REASONS FOR DENYING THE WRIT

The Federal Circuit, applying its *en banc* decision in *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 35 U.S.P.Q. 2d 1065 (Fed. Cir. 1995), *cert. denied*, 116 S. Ct. 184 (1995), correctly held that the grant of an exclusive contractual right to manufacture a patentee's "requirements" for a product does not constitute a transfer of the proprietary right under a patent to exclude others from making an invention, and, therefore, does not grant the recipient of the contractual right the ability to bring claims for patent infringement.

The Petition does not set forth any compelling argument why this case presents some principle of federal law which demands this Court's attention, nor could it. This is an ordinary, state law breach of contract action. The Petition is nothing more than an attempt to show that every court which has reviewed the Agreements has misinterpreted their terms. However, the supposed erroneous interpretation of the Agreements (allegedly committed by the District Court, the Federal Circuit panel and then apparently the entire Federal Circuit in denying *en banc* review) is not grounds to invoke this Court's jurisdiction. Similarly, the supposed inability of the District Court and the Federal Circuit to correctly apply the provisions of the Uniform Commercial Code, Michigan law on the fiduciary duties of agents and other state contract law doctrines does not merit this Court's intervention. This case does not afford the Court an opportunity to resolve any novel or unsettled questions of federal law. Finally, Textile's substantive arguments have no legal basis, and the decisions of both the District Court

and the Federal Circuit were correct on the merits. For these reasons, the Petition should be denied.

A. A CASE THAT PRESENTS ONLY THE QUESTION OF WHETHER THE TERMS OF A PARTICULAR AGREEMENT AMOUNT TO A TRANSFER OF PROPRIETARY RIGHTS UNDER A PATENT DOES NOT PRESENT A NOVEL OR UNSETTLED QUESTION OF FEDERAL LAW.

The patent statutes at issue have remained unchanged for years. A patent provides the owner with a proprietary right to exclude others from making, using or selling the invention. 35 U.S.C. § 154. Each of the proprietary rights to exclude others is a *res* that may be transferred by assignment (where the patentee conveys "title" to the right) or by an exclusive license (where the patentee retains title). 35 U.S.C. § 261. Only a "patentee" may bring a claim for infringement of the patent. 35 U.S.C. § 281. A "patentee" includes both the named patentee and "any successors in title." 35 U.S.C. § 100(d).

Since its inception, the Federal Circuit has decided a number of cases defining who qualifies as a "patentee" or a "successor in title" with standing to bring an infringement claim under these statutes. To assert a claim for patent infringement, the plaintiff must either be the patentee itself or one to whom the patentee has assigned a "whole patent right," "an undivided share" of the whole patent, or the undivided rights in a specified geographic region of the United States. *Abbott Lab. v. Diamedix Corp.*, 47 F.3d 1128, 1131 (Fed. Cir. 1995), *citing Waterman v. Mackenzie*, 138 U.S. 252 (1991). In addition to "assignees,"

exclusive licensees who have received the patentee's "substantial rights" have standing. *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870 (Fed. Cir. 1991).

An exclusive licensee who has received all of the proprietary rights under the patent may bring suit for infringement without joining the patentee. *Vaupel, supra; Para-Ordnance Mfg. v. SGS Importers Int'l*, 73 F.3d 1085, 1087 (Fed. Cir. 1995), *cert. denied*, 117 S. Ct. 80 (1996). An exclusive licensee of one of the rights to exclude others from making, using or selling the invention – but not all three – will have standing to sue, but only as a co-plaintiff with the patentee. *Kalman v. Berlyn Corp.*, 914 F.2d 1473 (Fed. Cir. 1990); *Weinar v. Rollform, Inc.*, 744 F.2d 797 (Fed. Cir. 1984), *cert. denied*, 105 S. Ct. 1844 (1985); *Duplan Corp. v. Deering Milliken Research Corp.*, 522 F.2d 809 (4th Cir. 1975).

The Federal Circuit has recognized that a patentee may grant a third party a license to make, use or sell the invention, without transferring the proprietary right to exclude others. *Ortho Pharm. Corp. v. Genetics Inst.*, 52 F.3d 1026 (Fed. Cir. 1995), *cert. denied*, 116 S. Ct. 274 (1995). Accordingly, not every contract with a patentee contains a transfer of the proprietary rights under a patent, and not every contract which deals with a patented invention gives the recipient the right to sue for patent infringement.

The Federal Circuit's *en banc* decision in *Rite-Hite* illustrates these principles. In *Rite-Hite*, the Federal Circuit was faced with independent sales organizations ("ISO's") who had contracted for the exclusive right to

sell the patentee's production of the patented product. The Federal Circuit held that while the patentee's grant to the ISO's of the exclusive contractual right to sell its production of the invention contained an "implied license" under the patent, the grant of a contractual right itself did not constitute a transfer of the *proprietary* right under the patent to exclude others from selling the invention. *Rite-Hite*, 56 F.3d at 1553. Since there was no transfer of the proprietary right under the patent to exclude others, the ISO's had no standing to assert infringement claims. *Id.*

This case, like *Rite-Hite*, required the Federal Circuit to interpret the Agreements to ascertain the nature of the rights they conveyed. Applying its well established standing principles, the Federal Circuit found that the parties intended for Textile to possess only the contractual right to manufacture socks for Mead and Mead's customers. Opinion, 134 F.3d at 1485. Consistent with its decision in *Rite-Hite*, the Federal Circuit held that "contractual manufacturing rights of a party do not alone" constitute a transfer of the proprietary rights under the patent, and, as a result, Textile had no standing to sue for patent infringement. *Id.* Instead, Textile is limited to its state law remedies for breach of contract.

This case simply does not present the Court with any reason to assert jurisdiction. Even if, as Textile asserts, the District Court and the Federal Circuit both misinterpreted the Agreements in determining that they conveyed only manufacturing, and not patent rights (and no such misinterpretation occurred), that supposed misinterpretation at best constitutes a misapprehension of facts. Of course, a lower court's misapprehension of facts

is an insufficient basis for granting certiorari. Sup. Ct. R. 10.

Similarly, assuming – as Textile contends – that both the District Court and the Federal Circuit erred in applying the provisions of the Uniform Commercial Code, in applying common law contract doctrines or in analyzing the fiduciary duties of agents (and they did not), that supposed error would not merit this Court's involvement. Again, the supposed misapplication of well established state law legal principles to the facts of a particular case is no basis for this Court's review. Sup. Ct. R. 10.

The Petition presents the Court with no novel questions of federal law, much less questions of sufficient importance to occupy the time of this Court. Even if Textile were correct in its claims of error (which it is not), those errors simply do not present issues that merit the invocation of this Court's jurisdiction. For this reason alone, the Petition should be denied.

B. THE FEDERAL CIRCUIT CORRECTLY HELD THAT TEXTILE'S CLAIMS, IF ANY, WERE FOR BREACH OF CONTRACT, NOT PATENT INFRINGEMENT.

Although a petition for certiorari is not the forum for exploration of the parties' arguments on the merits of the facts in a particular case, Textile's Petition does just that. Textile's arguments are flawed. They are neither substantively correct, nor provide any basis on which this Court should issue a writ of certiorari.

1. No implied state law duties can transform a contractual right to manufacture goods for a patentee into a transfer of proprietary rights under a patent.

At the time the Agreements were negotiated, the parties had developed an invention and had submitted a patent application, the success of which was in substantial doubt and the costs of which were mounting. As a co-inventor of the socks, Mead had the right to make, use and sell rights under any patent that could be obtained, co-inventor rights that existed even if Mead did not pay a penny towards the prosecution expenses. The undisputed testimony before the District Court – from Textile's own President – was that, in light of these circumstances, Textile decided to trade all rights under any to-be-issued patent for (a) a presently effective requirements contract; and (b) Mead's promise to pay half of the expenses to prosecute the patent. Billbury Aff., ¶¶7-12.

The express terms of the Agreements confirm this arrangement. Under the Agreements, Textile was to "assign its entire interest in and to any and all patents derived therefrom to [Mead]"; in exchange, Textile obtained a contract obligating Mead to purchase "100%" of its "requirements" of socks exclusively from Textile, a requirements contract which was in effect even if the patent application were unsuccessful. Textile also obtained Mead's promise to pay one-half of the expenses in pursuing the application. In essence, Textile traded a bird in the hand (a presently extant requirements contract and reimbursement for patent prosecution expenses) for two in the bush (Textile's potential profits emanating from co-inventor rights in a patent, if one were to issue).

Given these facts and this undisputed testimony, both the District Court and the Federal Circuit correctly held that Textile bargained for and the Agreements only provided Textile with contractual manufacturing – not patent – rights. Accordingly, both courts correctly held that Textile's remedy was a state law breach of contract action, not a federal action for patent infringement.

The Petition continues Textile's campaign to rewrite the Agreements, to impose obligations upon Mead for which Textile never bargained and to reallocate the consideration which the parties exchanged. Textile argues that, despite their terms, the Agreements did not constitute merely a "requirements" contract, but an "exclusive dealing" arrangement.[3] Textile then argues that, as an exclusive dealing contract, Mead was under an "implied" UCC duty to sell only Textile's products, that this implied duty amounted to a promise not to grant further "licenses" to others to manufacture products for sale by Mead, and that the implied UCC duties transformed Textile's contract rights into an "exclusive" patent license, giving it standing to sue for patent infringement. Petition, 8, 17-24. The Federal Circuit correctly rejected Textile's "implied duty" arguments.

First, Textile's implied duty arguments confuse the grant of private rights to fabricate an item with the transfer of the governmentally conferred patent right to exclude others. Whether characterized as a requirements

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[3] Petition, 8, 17-24, *citing* U.C.C. § 2-306, *Gestetner Corp. v. Case Equipment Co.*, 815 F.2d 806 (1st Cir. 1987); *Kardios Systems Corp. v. Perkin-Elmer Corp.*, 645 F. Supp. 506 (D. Md. 1986); and *Tigg Corp. v. Dow Corning Corp.*, 962 F.2d 1119 (3rd Cir. 1992).

contract or an "exclusive dealing agreement," the Federal Circuit correctly held that the grant of contractual rights to fabricate products is not the same as and does not constitute a transfer of the proprietary right to exclude others from manufacturing an invention. Opinion, 134 F.3d at 1484. They are simply apples and oranges, and no quantum of "implied duties" can metaphysically change a contractual right to manufacture into a transfer of the proprietary right to exclude others.

Second, Textile's implied duty arguments in the end amount to nothing but the unsupportable proposition that, *whenever* a patentee enters into a contract with a third party to fabricate the patentee's own "requirements" of the patentee's patented product, the patentee *sub silentio* transfers the governmentally granted proprietary right to exclude others from making the invention. Textile argues that because it has an arrangement with Mead that Mead will buy its requirements of the patented product from Textile, implied contract duties imposed by state law transformed its contract rights into rights under Mead's patent, giving Textile standing to sue Mead for infringement. Textile advocates this *per se* rule notwithstanding the fact that Mead never relinquished the right to license others to manufacture the patented product, and that the parties' Agreements provide that Textile expressly conveyed to Mead the very rights it seeks to imply. The shallowness of its contentions is perhaps best revealed by the fact that Textile finds "patent rights" not in the parties' Agreements or in their testimony, but in implied duties derived from various UCC provisions. The Federal Circuit did not err by refusing to adopt Textile's *per se* rules, or in refusing to use the UCC to find an

implied transfer of patent rights to exclude others. The Federal Circuit correctly rejected Textile's implied duty theories.

2. Textile was not a "field of use" licensee.

Textile also argues that the Agreements grant Textile a "field of use license" under the Patent to make socks for Mead, and that this field of use license is sufficient to confer standing. Petition, 8-17. Indeed, the only reason Textile posits for this Court's assertion of jurisdiction is that the Federal Circuit somehow overturned "148 years" of precedent by refusing to grant Textile "field of use" standing to assert infringement claims. *Id.*

The primary problem with Textile's argument is its continued confusion of contractual rights of fabrication with the transfer of the proprietary interest under the Patent to exclude others from making the invention. Textile has no "field of use" license under the Patent; Textile merely has the contractual rights to fabricate socks for Mead and Mead's own customers, and an implied license, *i.e.*, an implied promise that Mead would not sue Textile for infringement. This contractual right is not a transfer of a proprietary right under the Patent to exclude others.[4]

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[4] Since Textile only received manufacturing, and not patent rights, its reliance on the dicta of *Waterman v. Mackenzie*, 138 U.S. 252 (1891) and *Independent Wireless Tel. Co. v. Radio Corp. of America*, 269 U.S. 459 (1926) is unavailing. Those cases dealt with exclusive patent licenses, not mere manufacturing contracts.

Second, on the assumption that Mead did transfer some portion of the proprietary rights under the Patent (which it manifestly did not), that alleged transfer is insufficient to confer standing to sue for infringement. To have standing to bring a claim for infringement, one must have been received a transfer of one of the complete proprietary rights under a patent; that is, one must have received the right to exclude *all* others from making, using or selling the invention within the United States or a designated geographic territory thereof, and not merely a right to exclude a single category of potential users. 35 U.S.C. § 261; *compare, Etherington v. Hardee*, 290 F.2d 28, 29 (5th Cir. 1961); *Channel Master Corp. v. JFD Electronics Corp.*, 260 F. Supp. 568, 571 (E.D.N.Y. 1966). *Cf., E. W. Bliss Co. v. United States*, 253 U.S. 187 (1920). No court has granted standing to a "licensee" who possessed the exclusive right to manufacture an item for a single customer. Therefore, even if Textile were correct and even if Mead had somehow, contrary to the express terms of the parties' Agreement, *sub silentio* transferred its proprietary right under the Patent to exclude others from making the invention for Mead, that limited "field of use" is too narrow to confer standing to sue for infringement. Textile's remedy, if it were entitled to one at all, is simply to sue Mead for breach of contract, not patent infringement. The Federal Circuit did not err in rejecting Textile's field of use assertions.

3. No fiduciary duty can transform a contractual right of manufacture into the transfer of a proprietary right to exclude others from making the invention under the patent.

Textile also argues that Mead was its exclusive sales agent, and, as such, Mead was under a fiduciary duty to refrain from licensing third parties to make socks for non-Mead customers. Petition, 24-26. Textile continues to labor under its assumption that the Agreements transferred to Textile some portion of Mead's rights to exclude others under the Patent, when Mead transferred no such rights whatsoever. Textile's fiduciary duty assertions cannot enlarge a transfer of proprietary rights when no such rights were transferred *ab initio*. Textile's assertions, if meritorious, would simply create a claim for breach of contract, nothing more.

In any event, Textile's arguments have no substantive merit. While it may be true that a fiduciary may not deal in the subject matter of his agency in violation of a duty to his principal,[5] that maxim has nothing to do with this case. These were two commercial parties negotiating sophisticated agreements, with Textile being represented by counsel. Despite the arms' length negotiations, there is nothing in the Agreements which obligates Mead to continue to be in the business of selling socks, and, more important, nothing in the Agreements prevents Mead

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[5] Petition, 22-26, *citing* U.C.C. § 2-306, *Parev Products Co. v. I. Rokeach & Sons, Inc.*, 124 F.2d 147 (2nd Cir. 1941), *Foster v. Callaghan & Co.*, 248 F. 944 (S.D.N.Y. 1918), *Burton v. Burton*, 332 Mich. 326, 51 N.W.2d 297 (1952) and *Stephenson v. Golden*, 279 Mich. 710, 276 N.W. 849 (1937)

from deciding to leave the active buying and selling of socks and simply licensing the patent rights which it bargained to receive in the Agreements. The Agreements do not impose any fiduciary duty upon Mead. The Federal Circuit correctly disregarded Textile's agency arguments.

4. Textile's consideration under the Agreements was reimbursement for prosecution expenses and the right to manufacture socks for Mead regardless of whether a patent were to issue.

Textile finally argues that Mead was under an implied obligation not to grant additional manufacturing licenses because, if no such "implied" obligation exists, Mead's promise to buy socks from Textile would be illusory. Petition, 26-29, *citing Wood v. Lucy, Lady Duff-Gordon*, 222 N.Y. 88, 118 N.E. 214 (1917) and its progeny. Textile once again ignores the history of the Agreements and the obligations which they imposed.

At the time it executed the Agreements, Textile received substantial consideration for transferring rights to Mead under any to be issued patent. Textile received a requirements contract obligating Mead to purchase its requirements of socks from Textile, and Mead's promise to pay one-half of the mounting patent prosecution expenses. Indeed, Mead's contractual obligation to buy socks from Textile existed during the pendency of the patent application, and continued for three years even if no patent issued.

Textile's rights to manufacture under the requirements contract during the pendency of the patent application (and thereafter) and Mead's agreement to pay prosecution expenses constituted valid consideration for Textile's rights under any to be issued patent. While it is true that, once the Patent did in fact issue, Mead could cease purchasing socks from Textile and simply choose to receive royalties from third parties, Mead bargained for that advantageous position by obligating itself to pay the mounting prosecution expenses when it was unclear that the effort to obtain patent protection would succeed, and to be bound by a requirements contract that was effective even if no patent were issued. Quite simply, Mead took the risk that a patent would issue while Textile mitigated the risk by signing the Agreements and by receiving benefits that Textile would enjoy even if the patent application were unsuccessful. While the passage of time has apparently led Textile to conclude that it made an unfavorable deal, and while Textile may now wish that it had demanded more or different consideration, the District Court and the Federal Circuit did not err by refusing Textile's invitation to rewrite the Agreements, reallocate consideration and shift risks. *Turner Holdings, Inc. v. Howard Miller Clock Co.*, 657 F. Supp. 1370, 1380 (W.D. Mich. 1987); *Upjohn Co. v. New Hampshire Ins. Co.*, 438 Mich. 197, 206, 476 N.W.2d 392, 397 (1991). The Federal Circuit properly rejected Textile's *Lucy, Lady Duff-Gordon* arguments.

CONCLUSION

The Petition presents the Court with no important question of federal law, but only Textile's assertions that the District Court and a Federal Circuit panel misinterpreted the Agreements and misapplied the provisions of the Uniform Commercial Code, common-law contract principles and other state law doctrines. Textile's assertions not only are devoid of substantive legal merit, they are the antithesis of the important matters which properly occupy this Court's attention. The Petition should be denied.

Respectfully submitted,

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Dated: July 17, 1998